			emment Type		d P.A. 71 of 1919		Local Unit Nan	ne	County
	Count	y	☐City	□Twp	∐Village	⊠Other	PRESQUE	ISLE COUNTY ROAD COMM	PRESQUE ISLE
	al Year				Opinion Date			Date Audit Report Submitted to State	
	/31/0				04//05/06			06/06/06	
	affirm				P				
			•		licensed to p		Ū	and in the financial statements, include	ing the notes, or in the
	agem				nents and rec			sed in the financial statements, includ	ing the notes, or in the
	YES	9	Check ea	ch applic	able box belo	ow. (See in	structions for	further detail.)	
1.	×				ent units/functions to the financial			init are included in the financial staten sary.	nents and/or disclosed in the
2.	×							init's unreserved fund balances/unrest oudget for expenditures.	tricted net assets
3.	X		The local	unit is in c	compliance wit	th the Unifo	rm Chart of A	accounts issued by the Department of	Treasury.
<b>4</b> .	×		The local	unit has a	dopted a bud	get for all re	quired funds		
<b>5</b> .	×		A public h	earing on	the budget wa	as held in a	ccordance w	ith State statute.	
6.	×				ot violated the ssued by the l			an order issued under the Emergency Division.	/ Municipal Loan Act, or
7.	X		The local	unit has n	ot been delind	quent in dist	tributing tax r	evenues that were collected for anoth	er taxing unit.
8.	☑ The local unit only holds deposits/investments that comply with statutory requirements.								
9.	×							that came to our attention as defined ed (see Appendix H of Bulletin).	in the <i>Bulletin for</i>
10.	×		that have	not been j	previously cor	nmunicated	I to the Local	ment, which came to our attention du Audit and Finance Division (LAFD). If under separate cover.	
11.	X		The local	unit is free	of repeated	comments f	rom previous	years.	
12.		X	The audit	opinion is	UNQUALIFIE	D.			
13.	X				omplied with ( g principles ((		GASB 34 as	modified by MCGAA Statement #7 a	nd other generally
14.	×		The board	d or counc	il approves al	invoices p	rior to payme	nt as required by charter or statute.	
15.	X		To our kn	owledge, I	bank reconcili	ations that	were reviewe	d were performed timely.	
incl	uded	in t	his or any	other aud		do they of		operating within the boundaries of the alone audit, please enclose the nar	
								n all respects.	
We	have	e en	closed the	following	<b>j</b> :	Enclosed	Not Require	ed (enter a brief justification)	
Fin	ancia	ıl Sta	tements						
The letter of Comments and Recommendations				NO COM	MENTS AND RECOMMENDATIONS	NEEDED			
Oth	ner (D	escrib	e) AUDIT (	COMMU	NICATIONS	$\boxtimes$			
			Accountant (Fi	-	CPAs		•	Telephone Number 989-791-1555	

City

KENNETH A BERTHIAUME

Printed Name

**SAGINAW** 

State

МІ

Zip

License Number 8339

48638

Street Address

**60 HARROW LANE** 

Rogers City, Michigan

# FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION WITH REPORT OF CERTIFIED PUBLIC ACCOUNTANT

Year Ended December 31, 2005

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### INDEPENDENT AUDITORS' REPORT

Honorable Chairman Members of County Road Commission County of Presque Isle Rogers City, Michigan

We have audited the accompanying basic financial statements of the Presque Isle County Road Commission, a component unit of Presque Isle County, Michigan, as of and for the year ended December 31, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Road Commission. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

A complete physical inventory of equipment parts and materials was not taken by the County Road Commission as of December 31, 2005, and we were unable to satisfy ourselves as to the inventory quantities by means of other audit procedures.

In our opinion, except for the effects of the above items, if any, based on our audit, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and major fund of the Presque Isle County Road Commission as of December 31, 2005, and the budgetary comparisons of the County Road Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on page 2-7 is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Presque Isle County Road Commission's basic financial statements. The other supplementary information is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### MANAGEMENT'S DISCUSSION & ANALYSIS

#### **USING THIS ANNUAL REPORT**

The Presque Isle County Road Commission's discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviation from the approved budget; and e) identify any issues or concerns.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts; management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county road funds. The basic financial statements include two kinds of statements that present different views of the road commission.

The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when the cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed.

The remaining statements are fund financial statements that focus on the individual funds, reporting the operations in more detail than the government-wide financial statements.

### REPORTING THE ROAD COMMISSION AS A WHOLE

The statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases and decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

### MANAGEMENT'S DISCUSSION & ANALYSIS

### REPORT ON THE COMMISSION'S MAJOR FUND

The fund financial statements begin on page eleven and provide detailed information about the major fund. The Road Commission currently has one fund, the County Road Fund, in which all of the Road Commission's activities are accounted. The County Road Fund is a governmental type fund.

#### **Governmental Fund:**

The governmental fund focuses on how money flows into and out of this fund and the balances that are left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

### THE ROAD COMMISSION AS A WHOLE

The Road Commission's net assets increased approximately 2.12% or \$453,369 from \$21,367,767 to \$21,821,136 for the year ended December 31, 2005. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, increased \$111,753. The investment in capital assets-net of related debt increased by \$341,616, this increase reflects an investment in new capital assets, i.e. road improvements and equipment purchases greater than the expenses associated with capital assets such as depreciation as well as an increase in related debt for the year.

#### CONDENSED FINANCIAL STATEMENTS

The following are condensed government-wide financial statements for Presque Isle County Road Commission.

### CONDENSED STATEMENT OF NET ASSETS

December 31, 2005 and 2004

	Governmental Activities 2005	Governmental Activities 2004
ASSETS:		
General fund assets	\$ 2,235,620	\$ 2,199,541
Capital assets	19,878,259	19,791,305
Total assets	22,113,879	21,990,846
LIABILITIES:		
General fund liabilities	56,994	109,359
Liabilities associated with long-term debt	235,749	513,720
Total liabilities	292,743	623,079
NET ASSETS:		
General fund net assets-		
restricted for County roads	1,960,494	1,848,741
Invested in capital assets—		· · · · · · · · · · · · · · · · · · ·
net of related debt	19,860,642	19,519,026
Total net assets	<u>\$ 21,821,136</u>	<u>\$ 21,367,767</u>

### CONDENSED STATEMENT OF ACTIVITIES

For the years ended December 31, 2005 and 2004

	Governmental Activities 2005	
REVENUE:		
Program Revenue:		
License and Permits	\$ 8,725	\$ 9,407
Federal and State revenue	3,420,630	3,597,897
Contributions from local units	136,858	593,419
Charges for services	729,679	613,711
Other	84,933	50,583
	4,380,825	4,865,017
General Revenue:		
Investment earnings	38,225	16,652
Sale of fixed assets	263,441	
Total revenue	4,682,491	4,881,669
EXPENSES:		
Primary maintenance	778,615	639,309
Local maintenance	1,442,442	1,317,900
State trunkline maintenance	729,504	607,273
Infrastructure Depreciation	1,042,150	957,895
Net equipment expense	(42,580)	(289,963)
Net administrative expense	286,464	252,154
Compensated absences	(23,309)	3,452
Interest Expense	15,836	19,232
Total expenses	4,229,122	3,507,252
Change in net assets	453,369	1,374,417
Net assets, beginning of year	21,367,767	19,993,350
Net assets, end of year	\$ 21,821,136	<u>\$ 21,367,767</u>

### THE ROAD COMMISSION'S FUND

The Road Commission's County Road Fund is used to control the expenditures of Michigan Transportation Fund monies, distributed to the county, which are earmarked by law for road and highway purposes.

For the year ended December 31, 2005, the fund balance of the County Road Fund increased by \$88,444 which was not considered significant by management.

Management believes that the Net Assets balance provides sufficient work capital to support future operations of Presque Isle County Road Commission.

### **BUDGET**

The Presque Isle County Road Commission's budget is prepared in accordance with state law using the modified accrual accounting basis. This is the same accounting basis used for the governmental fund.

### **ANALYSIS OF FUND BALANCES**

#### ORIGINAL BUDGET VERSUS AMENDED BUDGET:

The 2005 budget was adopted on December 28, 2004. The budget is reviewed periodically and amended as information becomes available or management's plans change. The amended budgeted revenue was increased by approximately \$507,000. The increase is due to the following:

During 2005, the Road Commission contracted with the Michigan Department of Transportation (MDOT) to do several projects classified by MDOT as "non-maintenance." The Road Commission performed approximately \$151,300 more State "non-maintenance" projects than was budgeted for the year. The Road Commission also received a U.S. Fish and Wildlife grant for culvert replacement in the amount of \$18,200 along with a \$28,000 grant from Huron Shores Resource, Conservation & Development. Additional contributions from Township agreements for road reconstruction were received in the amount of \$136,858.

Total budgeted expenditures increased from the original budget to the amended budget by approximately \$419,000. The majority of this increase is also due to the State Non-maintenance projects and increased fuel costs. The balance of the increase was from adjustments made to several individual expenditures items, none of which management considers significant.

#### AMENDED BUDGET VERSUS ACTUAL:

In accordance with the Budget Resolution adopted by the Road Commission on December 28, 2004, the Finance Director has modified the budget to various revenue and expenditures accounts which cannot be accurately projected prior to year end. As a result, the Final Adopted Budget of the Presque Isle County Road Commission has been amended to equal the actual revenue, expenditures, and fund balance for the year ended December 31, 2005.

### **CAPITAL ASSETS AND LONG-TERM DEBT**

#### **CAPITAL ASSETS:**

Presque Isle County Road Commission has capital assets for full accrual accounting purposes, net of accumulated depreciation, in the amount of \$19,878,259. This information, which includes infrastructure, is summarized below.

		<u>2005</u>	<u>2004</u>
Land	\$	4,470	\$ 4,470
Land improvements		6,709,951	6,407,185
Buildings and improvements		856,374	854,494
Road equipment		4,570,957	4,522,821
Other equipment		92,028	93,861
Depletable assets		199,686	199,686
Infrastructure and improvements	2	2,703,160	21,841,442
Total capital assets	3	5,136,626	33,923,959
Accumulated depreciation	(1	<u>5,258,367)</u>	(14, 132, 654)
Net capital assets	<u>\$ 1</u>	9,878,259	\$ 19,791,305

Additional information regarding capital assets is located in the Notes to the Financial Statements.

### **LONG-TERM DEBT:**

The Road Commission currently has long-term debt in the amount of \$235,749, a decrease of \$277,971 from the prior year. This decrease is primarily due to the retirement of an installment purchase contract on two motor graders that were traded in during the year. The long-term debt consists of one installment purchase contract and compensated absences payable at December 31, 2005.

### **OTHER**

Management is not aware of any currently known facts, decisions, or conditions expected to have a significant effect on Presque Isle County Road Commission's financial condition next year and beyond.

### CONTACTING THE ROAD COMMISSION'S FINANCIAL MANAGEMENT

This report is designed to provide the motoring public, citizens, and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report, or need additional financial information, contact the Presque Isle County Road Commission's administrative offices at 657 South Bradley Highway, Rogers City, MI 49779.



### STATEMENT OF NET ASSETS

December 31, 2005

ASSETS: Cash and cash equivalents	\$ 1,139,926
Accounts Receivable:  Michigan Transportation Fund State trunkline maintenance Due on County Road Agreements Sundry accounts Interest receivable	414,083 83,645 50,447 9,119 839
Inventories: Road materials Equipment parts and materials	356,274 145,440
Capital assets (net of accumulated depreciation)	19,878,259
Prepaid Expenses	35,847
Total assets	22,113,879
LIABILITIES:	
Current Liabilities: Accounts payable Accrued liabilities Current Portion: Compensated absences payable Installment purchase contracts payable Total current liabilities	40,332 16,662 8,615 17,617 83,226
Non-Current Liabilities: Compensated absences payable Installment purchase contracts payable Total non-current liabilities Total liabilities	209,517 209,517 292,743
NET ASSETS:	
Investment in capital fixed assets – net of related debt Restricted for County roads	19,860,642 1,960,494
Total net assets	\$ 21,821,136

 ${\it The Notes to Financial Statements are an integral part of this statement.}$ 

### STATEMENT OF ACTIVITIES

PROGRAM EXPENSES:		
Primary road maintenance	\$	778,615
Local road maintenance		1,442,442
State trunkline maintenance		729,504
Net equipment expense		(42,580)
Net administrative expense		286,464
Infrastructure depreciation		1,042,150
Compensated Absences		(23,309)
Interest expense		15,836
Total program expenses	_	4,229,122
PROGRAM REVENUE:		
License and permits		8,725
Federal grants		535,397
State grants		2,885,233
Contributions from Local Units		136,858
Charges for services		729,679
Rents/Oil leases		12,123
Other revenues		72,810
Total program revenue	_	4,380,825
Net program revenue		151,703
General Revenue		
Investment earnings		38,225
Gain on Equipment Disposal		263,441
Total General Revenues		301,666
Change in Net Assets		453,369
Net assets, beginning of year		21,367,767
Net assets, end of year	\$	21,821,136
······································	-	,,,,,,,,,,,,

### COUNTY ROAD FUND

### GOVERNMENTAL FUND BALANCE SHEET

For the Year Ended December 31, 2005

### **ASSETS:**

Cash and Cash Equivalents:		
Imprest cash	\$ 20	0
Checking and money market savings accounts	589,72	6
Certificates of Deposit	550,00	0
Accounts Receivable:		
Motor vehicle highway funds	414,08	3
State trunkline maintenance	83,64	5
County road agreement	50,44	.7
Sundry accounts receivable	9,11	9
Interest Receivable	83	9
Inventories:		
Equipment materials and parts	356,27	4
Road materials	145,44	0
Other assets:		
Prepaid expenses	35,84	·7
Total assets	<u>\$ 2,235,62</u>	0
LIABILITIES:		
Accounts payable	\$ 40,33	2
Accrued payroll	16,66	2
Total liabilities	56,99	4
FUND EQUITY:		
Motor Vehicle Highway Funds:		
Unreserved:		
Designated:		
Primary	261,70	15
County Road Commission Fund:	201,10	•
Unreserved:		
Undesignated	1,916,92	1
Total fund equity	2,178,62	
* *	·	
Total liabilities and fund equity	<u>\$ 2,235,62</u>	<u>U</u>

The Notes to Financial Statements are an integral part of this statement.

### RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO THE STATEMENT OF NET ASSETS

For the Year Ended December 31, 2005

Total governmental fund balance

\$ 2,178,626

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

19,878,259

Long-term liabilities are not due and payable in the current period and therefore not reported as liabilities in the fund. Long-term liabilities at year end consist of the following:

Compensated absences payable Installment purchase contracts payable

(218,132)

(17,617)

Net assets of governmental activities

\$ 21,821,136

### COUNTY ROAD FUND

# GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

For the Year Ended December 31, 2005

### **REVENUES:**

Fund balance, end of year

Licenses and permits	\$ 8,725
Federal grants	535,397
State grants	2,885,232
Local unit contributions	136,858
Charges for services	729,679
Interest and rents	50,349
Other revenues	 336,251
Total revenues	 4,682,491
EXPENDITURES:	
Public works	4,358,929
Capital outlay	(35,380)
Debt service	 270,498
Total expenditures	 4,594,047
Excess (deficiency) of revenues over expenditures	88,444
Fund balance, beginning of year	 2,090,182

\$ 2,178,626

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Net change in fund balance – total governmental funds	\$ 88,444
Amounts reported for governmental activities in the statement are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded deprecation in the current period.	86,954
Repayment of installment purchase contracts payable is an expenditure in the governmental funds, but reduces the long-term liabilities in the Statement of Net Assets. This is the amount of repayments reported as expenditures in the governmental funds.	254,662
Compensated absences reported in the statement of activities do not require the use of current financial resources and is therefore not reported as an expenditure in the governmental fund. This is the amount the liability changed during the current year.	 23,309
Change in net assets of governmental activities	\$ 453,369

### NOTES TO FINANCIAL STATEMENTS

December 31, 2005

### **NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Presque Isle County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to government units. The following is a summary of the significant accounting policies used by the Presque Isle County Road Commission.

#### A. REPORTING ENTITY

The Presque Isle County Road Commission is an independent governmental agency operated under the jurisdiction of the State of Michigan and Presque Isle County established pursuant the *County Road Law MCL 224.1*. The Commission is charged with the responsibility of maintaining all primary and local road systems in Presque Isle County. The Road Commission is governed by a three member board appointed by the County Board of Commissioners.

In accordance with the provisions of GASB 14, the Presque Isle County Road Commission is considered a component unit of Presque Isle County for financial reporting purposes. The criteria for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service and special financing relationships.

The Road Commission Operating Fund (County Road Fund) is used to control the expenditures of Michigan Transportation Fund moneys distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the County Road Fund. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

### B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the Presque Isle County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either as invested in fixed assets, net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers of applicants who purchase, use, or directly benefit from goods, services, of privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function of segment. Other items not properly included among program revenues are reported instead as general revenue.

### **NOTES TO FINANCIAL STATEMENTS (continued)**

December 31, 2005

### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES, continued

Separate financial statements are provided for the County Road Fund (governmental fund). The County Road Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported in separate columns in the fund financial statements.

# C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims, and judgments are recorded only when the payment is due.

Michigan transportation funds, grants, permits, township contributions, charges for services and sales, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other items are considered to be available only when cash is received.

### D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

### **Cash and Cash Equivalents:**

The Road Commission's cash and cash equivalents are considered to be cash on hand, demand deposits including certificates of deposit, and short-term investments with original maturities of three months or less from date of acquisition.

State statutes authorize the Road Commission to invest in U.S. government obligations, certificates of deposit, commercial paper, repurchase agreements, banker's acceptances, and with some restrictions, mutual funds.

All investments, if any, are stated at fair value.

### **NOTES TO FINANCIAL STATEMENTS (continued)**

December 31, 2005

#### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES, continued

#### **Inventories:**

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventory consists of road materials, road signs, repair parts, and supplies to be used by the Road Commission.

### **Capital Assets:**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, and similar items) are reported in the government-wide financial statements. The Presque Isle County Road Commission defines capital assets as either; an asset with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years, or assets of any cost that are assigned a Schedule C rate. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

GASB No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized. The Presque Isle County Road Commission has retroactively capitalized all of its assets as required effective January 1, 2004.

### **Depreciation and Depletion:**

Depreciation has been computed over the assets estimated useful lives using the sum-of-the-years-digits method for road equipment and the straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	15 to 50 years
Road Equipment	5 to 10 years
Shop Equipment	8 to 10 years
Engineering Department	8 to 10 years
Office Equipment	5 to 10 years
Infrastructure – Roads	5 to 20 years
Infrastructure – Bridges	30 to 50 years

Depletion is determined by allocating the purchase cost of the total years available. As materials are used, the proportionate share of cost is charged to depletion.

#### **Compensated Absences (Vacation and Sick Leave):**

The total accumulated unpaid vacation and sick pay liability of the Road Commission at December 31, 2005, was \$218,132. Of this amount, \$8,615 was estimated to be a current liability and is reflected as a liability on the government-wide statement of net assets. The remaining \$209,517 was determined to be a long-term liability and is therefore reflected as a non-current liability on the government-wide statements. A liability for these amounts is only reported in the governmental funds for known employee terminations as of year-end.

### **NOTES TO FINANCIAL STATEMENTS (continued)**

December 31, 2005

#### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES, continued

The employee policies regarding the accumulation and payment of vacation and sick leave time are as follows:

VACATION TIME - Maximum carry-forward is 24 days each year. Only 49 days can be used in

any one year; unused vacation pay will be paid at current rates at date of

employment separation.

SICK LEAVE - A maximum of 90 days can be accumulated. Unused sick leave will be paid

50% at current rates at date of separation to a maximum of 45 days.

### **Long-Term Obligations:**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

### **Fund Equity:**

The Road Commission reserves those portions of fund equity which are legally segregated for a specific future use of which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves have been established for inventories.

#### **Snow Removal Revenue:**

Snow removal revenue was allocated 100% to local roads. This allocation is in accordance with provisions made by the State Highway Department allowing each Road Commission to make its own allocation of total snow removal revenue.

#### **Interest Income Allocation:**

Interest income for the year was allocated 87% to County Road Commission Funds and 13% to Primary Road Fund based on beginning fund balance (before restatement) allocated to each subaccount.

#### **Use of Estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### **NOTES TO FINANCIAL STATEMENTS (continued)**

December 31, 2005

### NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### A. BUDGET AND BUDGETARY ACCOUNTING

The Road Commission follows these procedures in establishing the budget as reflected in these financial statements:

- 1. In December the clerk submits, to the Commission, a proposed operating budget for the year commencing on January 1.
- 2. Prior to December 31, the budget is legally enacted through passage of a resolution.
- 3. For purposes of meeting emergency needs of the Road Commission, transfer of appropriations may be made by the authorization of the clerk. Such transfers of appropriations must be approved by the Commission at its next regularly scheduled meeting.
- 4. The clerk is charged with general supervision of the budget.
- 5. During the year the budget is monitored and amendments to the budget resolution are made as deemed necessary.
- 6. The budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

#### **B. BUDGET COMPLIANCE**

Public Act 2 of 1968, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. For the year ended December 31, 2005 the Road Commission incurred no expenditures in excess of budget appropriations.

### NOTE 3 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

Deposits are carried at cost. Deposits of the County Road Fund are in three banks in the name of the Road Commission and the County Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase, and which involves no more than 50% of any one fund; and obligations of the State of Michigan or its political subdivisions which are rated as investment grade. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of *Public Act 20 of 1943*, as amended.

### **NOTES TO FINANCIAL STATEMENTS (continued)**

December 31, 2005

### NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS, continued

At year end the Road Commission did not have any investments; all the cash deposits and \$200 in petty cash were reported as Cash and cash equivalents in the basic financial statements.

The Road Commission's deposits are subject to custodial credit risk, which is reported in more detail as follows:

### **Custodial Credit Risk of Bank Deposits:**

Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. The Road Commission does not have a deposit policy for custodial credit risk. At year end, the Road Commission had \$1,223,347 of bank deposits (checking, savings, certificates of deposit and money market savings accounts), of which \$300,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Road Commission believes that due to the dollar amounts of cash deposits, and the limits of FDIC insurance, is impractical to insure all deposits. As a result, the Road Commission evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with acceptable estimated risk level are used as depositories.

### **NOTE 4 – CAPITAL ASSETS**

Non-infrastructure depreciation expense for the year was charged to programs of the Presque Isle County Road Commission as follows:

Primary Road:	
Heavy Maintenance	\$ 7,217
Maintenance	104,167
Local Road:	
Heavy Maintenance	23,169
Maintenance	189,034
State Trunkline:	
Maintenance	99,872
Administrative	 1,099
Total non-infrastructure depreciation expense	\$ 424,558

### NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2005

### **NOTE 5 – CAPITAL ASSETS, continued**

Capital asset activity of the Presque Isle County Road Commission for the current year was as follows:

	Beginning Balances 01/01/05	Additions	Deductions	Ending Balances 12/31/05
Capital Assets Not Being Depreciated				
Land and Improvements-Infrastructure	\$ 6,407,185	\$ 302,766	\$	\$ 6,709,951
Land and Improvements-Other	4,470		<del>_</del>	4,470
	6,411,655	302,766	<u>-</u>	6,714,421
Capital Assets Being Depreciated				
Depletable Assets	199,686	-	-	199,686
Buildings	854,494	1,880	-	856,374
Road Equipment	4,522,821	383,257	335,121	4,570,957
Shop Equipment	62,461	1,743	1,049	63,155
Office Equipment	16,430	5,649	8,176	13,903
Engineers Equipment	14,970	-	-	14,970
Infrastructure – Bridges	3,593,510	-	-	3,593,510
Infrastructure – Roads	18,247,932	861,718	<del>_</del>	<u>19,109,650</u>
Subtotal	27,512,304	1,254,247	344,346	28,422,205
Less Accumulated Depreciation				
Depletable Assets	79,034	3,812	-	82,846
Buildings	501,895	77,100	-	578,995
Road Equipment	3,742,164	339,922	332,169	3,749,917
Shop Equipment	49,801	1,956	1,049	50,708
Office Equipment	14,253	1,098	7,777	7,574
Engineers Equipment	11,454	670	-	12,124
Infrastructure – Bridges	1,931,037	54,145	-	1,985,182
Infrastructure – Roads	7,803,016	988,005	<del>_</del>	<u>8,791,021</u>
Subtotal	14,132,654	1,466,708	340,995	15,258,367
Net Capital Assets Being Depreciated	13,379,650	(212,461)	3,351	13,163,838
Total Net Capital Assets	\$19,791,305	\$ 90,305	\$ 3,351	<u>\$19,878,259</u>

### **NOTES TO FINANCIAL STATEMENTS (continued)**

December 31, 2005

### **NOTE 5 – LONG-TERM DEBT**

The following is a summary of the long-term debt transactions for the Road Commission for the year ended December 31, 2005:

Portion

GOVERNMENTAL ACTIVITIES:  Installment Purchase Contracts: Roller – original issue of					
\$84,818 due in annual installments of \$18,319 through the year 2006, bearing interest at 4.00%.	34,553	\$ -	\$ (16,936)	\$ 17,617	\$ 17,617
Graders – original amount of issue of \$312,000 due in annual installments of \$32,156 through the year 2004 with a balloon of \$227,498 due in 2005, bearing interest at 6.15%.	214,317		(214,317)	-	-
Tractor – original amount of issue of \$71,453 due in annual installments of \$15,934.89 through the year 2005, bearing interest at 5.615%.	15,067		(15,067)	-	-
Storage Tank – original amount of issue of \$30,850 due in annual installments of \$8,799.31 through the year 2005, bearing interest at 5.357%.	8,342		(8,342)	-	-
Compensated Absences Payable	241,441	-	(23,309)	218,132	8,615
TOTAL LONG-TERM DEBT \$	513,720	\$ -	\$(277,971)	\$ 235,749	\$ 26,232

### **NOTES TO FINANCIAL STATEMENTS (continued)**

December 31, 2005

#### NOTE 5 – LONG-TERM DEBT, continued

The annual requirements (principal and interest) to amortize all debts (except vacation and sick) outstanding as of December 31, 2005, are as follows:

Year Ending December 31,	2006 2007	Installment Purchase Contracts
2006		\$ 18,319
2007	Totals	\$ 18,319

The accumulated vacation and sick leave is not subject to an annual amortization calculation because it will become due and payable in varying amounts from year to year as employees terminate their employment with the Presque Isle County Road Commission.

### **NOTE 6 – PENSION PLAN**

### **Description of Plan and Plan Assets**

The Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5 percent times the final average compensation (FAC) with a maximum benefit of 80 percent of FAC. The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2004.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 [MSA 5.333(a); MCLA 46.12 (a)], as amended, State of Michigan. MERS is regulated under Act No. 220 of the Public Acts of 1996, as amended, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

### **Funding Policy**

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which does not require general employees to contribute to the plan, the commissioners contribute at a rate of 3 percent. The Road Commission was required to contribute at an actuarially determined rate; the current rate was 14.88 percent for general employees and 9.12 percent for covered commissioners.

### **NOTES TO FINANCIAL STATEMENTS (continued)**

December 31, 2005

### NOTE 6 - PENSION PLAN, continued

#### **Annual Pension Cost**

During the fiscal year ended December 31, 2005, the Road Commission's contributions totaling \$145,845 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2003. The employer contribution rate has been determined based on the entry age normal cost method. Under the entry age normal cost method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

### Three Year Trend Information for GASB Statement No. 25

Year	Annual	Percentage	Net
Ended	Pension	of APC	Pension
December 31	Cost (APC)	Contributed	Obligation
2005	145,845	100%	\$0
2004	153,246	100	0
2003	172,362	100	0

### **NOTE 7 – DEFERRED COMPENSATION PLAN**

The Commission offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their current salary until future years. The Road Commission does not contribute to the Plan.

### **NOTE 8 – POST-EMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note 6, the Road Commission makes available health care benefits to all retired employees. The Road Commission is paying for health insurance for the retired employee, their spouse and/or family members. Currently, twenty-eight retirees of the Road Commission are participating in this benefit program. During 2005 the Road Commission paid approximately \$264,832 for health insurance premiums for its retirees under this program. The Road Commission's policy is to finance these benefits on a pay-as-you-go basis.

### **NOTES TO FINANCIAL STATEMENTS (continued)**

December 31, 2005

### **NOTE 9 – UPCOMING REPORTING CHANGE**

The Governmental Accounting Standards Board has recently released Statement Number 45, Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than the time the health care benefits are paid. The new pronouncement is effective for the year beginning January 1, 2009.

### **NOTE 10 – FEDERAL GRANTS**

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2005, the Federal grants received and expended by the Road Commission was \$517,197 for contracted projects and \$18,200 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. Negotiated projects are projects where the Road Commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if they expended \$500,000 or more for negotiated projects.

### **NOTE 11 – CONTINGENCIES**

The Presque Isle County Road Commission contracts with the State of Michigan to perform state highway maintenance functions for the State. The cost of the maintenance is then billed to the State of Michigan who reimburses the Presque Isle County Road Commission for the costs incurred. These cost reimbursement contract expenditures are subject to audit at some future date by the State of Michigan. The amount, if any, of expenditures that may be disallowed by the State of Michigan cannot be determined until the State completes its annual audit of its maintenance agreement with the Presque Isle County Road Commission. The audit adjustment is accounted for as an adjustment of the current year's expenditures.

The Presque Isle County Road Commission is party to various legal proceedings incidental to its operations. Certain claims, suits and complaints arising in the ordinary course of operations have been filed against the Road Commission. In the opinion of management and legal counsel, all such matters are adequately covered by insurance or, if not so covered, are without merit or are in a very preliminary state, and it is not possible to currently assess the probability of an unfavorable outcome.

### **NOTES TO FINANCIAL STATEMENTS (continued)**

December 31, 2005

### **NOTE 12 - OPERATING LEASES**

The Road Commission is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Road Commission's account groups.

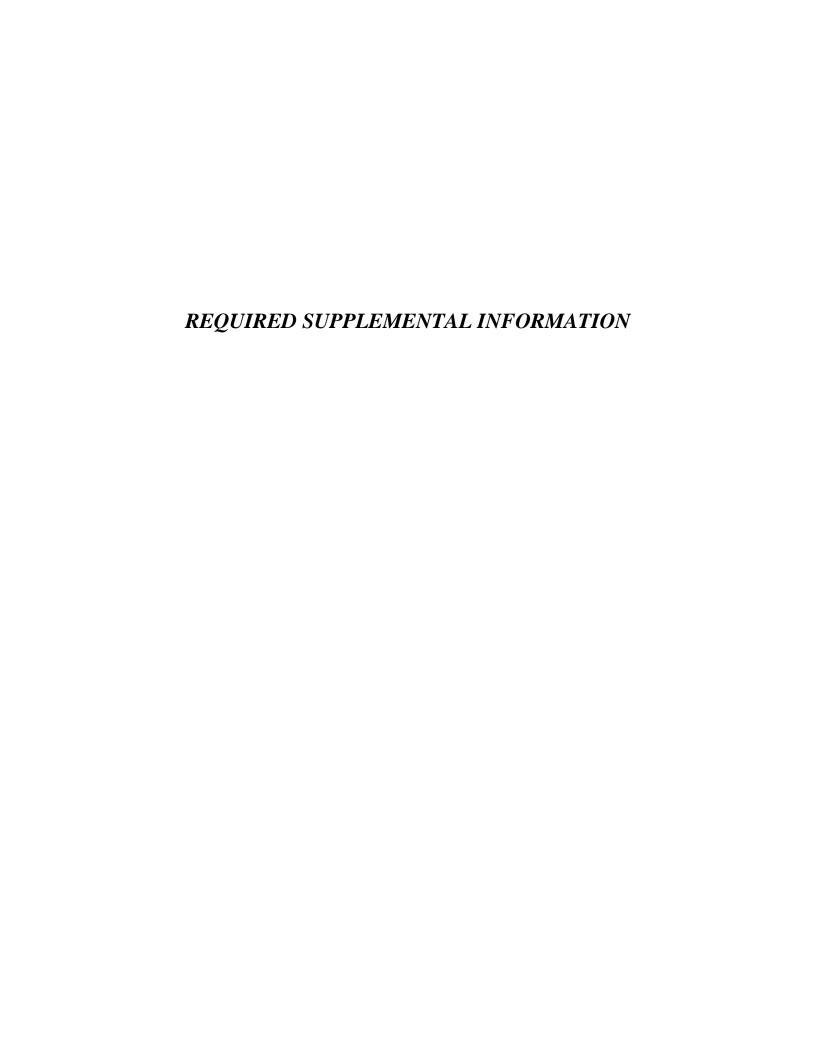
The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2005:

Year Ending December 31,	A	mounts Due
2006 2007	\$	20,721 20,721
Total minimum payments required	\$	41,442

During the year ended December 31, 2005, the Road Commission expended \$20,721 for all operating leases.

### **NOTE 13 – RISK MANAGEMENT**

The Road Commission is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries to employees, and natural disasters. The Road Commission manages its liability and property risk by participating in Michigan County Road Commission Self Insurance Pool and the County Road Association Self Insurance Fund (for workers compensation). These insurance providers are public entity risk pools providing coverage to its members. The Road Commission pays an annual premium to these providers for its insurance coverage. These providers are self-sustaining through member premiums and provide, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based on property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.



### SCHEDULE OF PENSION PLAN FUNDING PROGRESS

For the Year Ended December 31, 2005

### Required Supplementary Information for GASB Statement No. 27

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/00 12/31/01	\$ 6,080,430 \$ 6,308,287	5,488,067 5,719,176	\$ 592,363 589,111	90.26% \$ 90.66	970,594 959,444	61.02% 61.40
12/31/02 12/31/03 12/31/04	6,959,093 7,251,042 7,629,424	5,658,507 5,864,209 5,971,013	1,300,586 1,386,833 1,658,411	81.31 80.87 78.26	1,007,191 1,043,120 1,031,739	129.13 132.95 160.74

### COUNTY ROAD FUND

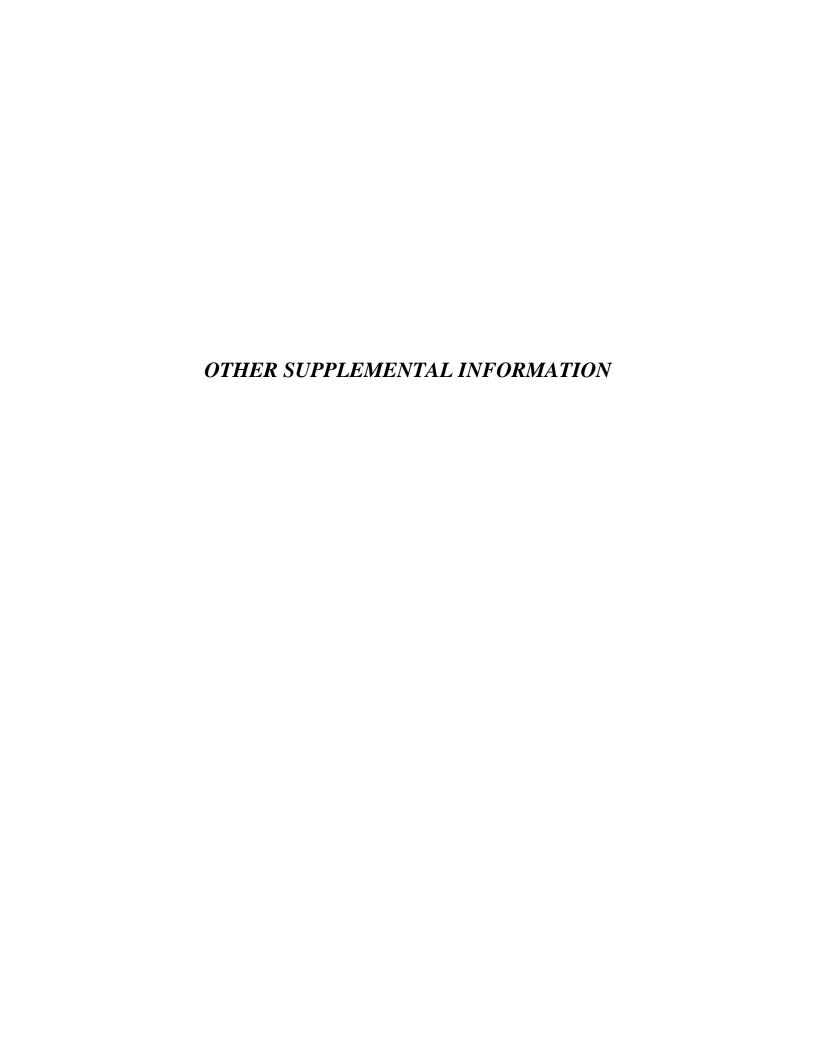
### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)		
REVENUES:						
Licenses & Permits:						
Permits	\$ -	\$ 8,725	\$ 8,725	\$ -		
Federal Grants:						
Federal Revenue:						
Surface Transportation Program	225,000	517,197	517,197	-		
U.S. Fish & Wildlife Service-Culvert Replacement	-	18,200	18,200	-		
State Grants:						
Michigan Transportation Fund:						
Engineering	10,000	10,000	10,000	-		
Snow removal	69,000	76,138	76,138	-		
Primary Road	1,700,000	1,515,053	1,515,053	-		
Local road	1,100,000	1,102,905	1,102,905	-		
Economic Development Fund:						
Rural Primary - D Funds	225,000	94,036	94,036	=		
Forest Road	87,000	87,101	87,101	-		
Local Unit Contributions:						
County-Raised Funds:						
Township contribution	250,000	136,858	136,858	-		
Charges for Services:						
State Revenue:						
State trunkline maintenance	475,000	578,204	578,204	-		
State trunkline non-maintenance	-	151,300	151,300	-		
Local Revenue:						
Salvage sales	-	175	175	-		
Interest and Rents:						
Interest earned	12,000	38,225	38,225	-		
Rent/Oil Leases	5,000	12,123	12,123	-		
Other Revenues:						
Refunds	-	37,508	37,508	-		
Contributions	-	28,000	28,000	-		
Miscellaneous	17,000	7,302	7,302	-		
Sale of Capital Assets – Gain	<u>-</u>	263,441	263,441			
Total revenues	4,175,000	4,682,491	4,682,491			

### COUNTY ROAD FUND

### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL - continued

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>EXPENDITURES:</b>		J		/
Public Works:				
Primary Road:				
Heavy Maintenance	525,000	831,445	831,445	=
Maintenance	800,000	778,615	778,615	-
Local Road:				
Heavy Maintenance	700,000	333,039	333,039	-
Maintenance	1,400,000	1,442,442	1,442,442	-
State trunkline maintenance	475,000	578,204	578,204	-
State trunkline non-maintenance	-	151,300	151,300	-
Equipment expense	(139,700)	(42,580)	(42,580)	-
Administrative expense	207,700	286,464	286,464	-
Capital Outlay:				
Capital outlay	150,000	(35,380)	(35,380)	-
Debt Service:				
Interest expense	-	15,836	15,836	-
Long-term debt payments	57,000	254,662	254,662	
Total expenditures	4,175,000	4,594,047	4,594,047	
Excess (deficiency) of revenues				
over expenditures		88,444	88,444	
Fund balance - beginning of year	2,090,182	2,090,182	2,090,182	-
Fund balance - end of year	\$ 2,090,182	\$ 2,178,626 \$	2,178,626	\$ -



### COUNTY ROAD FUND

### ANALYSIS OF CHANGES IN FUND BALANCES

			County		
	Primary	Local	Road		
	Road	Road	Commission	n	
	 Fund	Fund	Fund		Total
Total operating revenues	\$ 2,136,455	1,423,591	\$ 1,122,445	\$	4,682,491
Total expenditures	 1,735,661	1,904,426	953,960		4,594,047
Excess of revenues over (under) expenditures	 400,794	(480,835)	168,485		88,444
OTHER FINANCING SOURCES (USES):					
Optional transfers in (out) Primary Road to Local Road	(400,794)	400,794	-		-
County Road Commission to Local Road		80,041	(80,041)		<u> </u>
Total other financing sources (uses)	 (400,794)	480,835	(80,041)		<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	-	-	88,444		88,444
Fund balance, January 1, 2005	 261,705		1,828,477		2,090,182
Fund balance, December 31, 2005	\$ 261,705	\$ -	\$ 1,916,921	\$	2,178,626

### COUNTY ROAD FUND

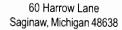
### **ANALYSIS OF REVENUES**

	Primary Road	Local Road	County Road Commission	ı	
	Funds	Funds	Funds		Total
REVENUES:					
Licenses & Permits:					
Permits	\$ -	\$ -	\$ 8,725	\$	8,725
Federal Grant:					
Surface Transportation Program	517,197	-	-		517,197
U.S. Fish & Wildlife Service - Culvert Replacement	-	18,200	-		18,200
State Grants:					
Motor Vehicle Highway Revenue:					
Engineering	5,200	4,800	-		10,000
Snow removal	-	76,138	-		76,138
Primary road	1,515,053	-	-		1,515,053
Local road	-	1,102,905	-		1,102,905
Economic Development Fund:					
Rural Primary – D Funds	94,036	-	-		94,036
Forest Road	-	87,101	-		87,101
Local Unit Contributions:					
Township contributions	-	106,447	30,411		136,858
Charges for Services:					
State Revenue:					
State trunkline maintenance	-	-	578,204		578,204
State trunkline non-maintenance	-	-	151,300		151,300
Local Revenue:					
Salvage sales	-	-	175		175
Interest and Rents:					
Interest earned	4,969	-	33,256		38,225
Rents/Oil Leases	-	-	12,123		12,123
Other Revenues:					
Refunds	-	-	37,508		37,508
Contributions	-	28,000	-		28,000
Miscellaneous			7,302		7,302
Sale of assets - gain	-	-	263,441		263,441
Total Revenues	\$ 2,136,455	\$ 1,423,591	\$1,122,445	\$	4,682,491

### COUNTY ROAD FUND

### **ANALYSIS OF EXPENDITURES**

	Primary Road Funds	Local Road Funds	County Road Commission Funds	Total
<b>EXPENDITURES:</b>				
Public Works:				
Primary Road:				
Heavy maintenance	831,445 \$	- \$	- \$	831,445
Maintenance	778,615	-	-	778,615
Local Road:				
Heavy maintenance	_	333,039	-	333,039
Maintenance	_	1,442,442	-	1,442,442
State trunkline maintenance	-	-	578,204	578,204
State trunkline non-maintenance	-	-	151,300	151,300
Equipment expense (net)	(10,632)	(21,286)	(10,662)	(42,580)
Administrative Expense (net)	136,233	150,231		286,464
Capital Outlay				
Capital outlay (net)	-	-	(35,380)	(35,380)
Debt Service:				
Interest expense	-	-	15,836	15,836
Debt payments			254,662	254,662
Total Expenditures \$	1,735,661 \$	1,904,426 \$	953,960 \$	4,594,047





(989) 791-1555 Fax (989) 791-1992

### **AUDIT COMMUNICATION**

April 5, 2006

To the Honorable Chairman and Members of County Road Commission County of Presque Isle Rogers City, Michigan

We have audited the financial statements of the Presque Isle County Road Commission for the year ended December 31, 2005. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### <u>AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY</u> ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Presque Isle County Road Commission in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through he financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement, we will advice management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Presque Isle County Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2005. We noted no transactions entered into by the Presque Isle County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year beginning January 1, 2009.

#### OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but no limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.



We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

### **SUMMARY**

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Berthiaume & Company Certified Public Accountants

Berthiaume & Co.